

Report
of the
Examination of
State Auto Insurance Company of Wisconsin
Oshkosh, Wisconsin
As of December 31, 2003

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

May 6, 2005

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Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a
compliance examination has been made of the affairs and financial condition of:

STATE AUTO INSURANCE COMPANY OF WISCONSIN
Onalaska, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of State Auto Insurance Company of Wisconsin (State Auto Wisconsin or the company) was conducted in 2002 as of December 31, 2001. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's
operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendation and comment made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

State Auto Insurance Company of Wisconsin was organized in 1974 as a dual-charter life/health and property/casualty insurance company under the name Midwestern National Insurance Company. On November 19, 1992, the name of the company was changed to Midwest Security Insurance Company, and on July 1, 2002, the name of the company was changed to State Auto Insurance Company of Wisconsin, the name currently used by the company.

Effective December 31, 1986, the company established an assignment and assumption reinsurance agreement whereby all of the company's life and annuity business was transferred to Midwest Security Life Insurance Company, a former affiliate. Concurrent with the transfer of the company's life and annuity risks, the company's certificate of authority was amended to limit its authorized lines of business to the following, as defined in s. Ins 6.75, Wis. Adm. Code:

- (2) (a) Fire, Inland Marine and Other Property Insurance
- (c) Disability Insurance
- (d) Liability and Incidental Medical Expense (other than Automobile Insurance)
- (e) Automobile and Aircraft Insurance
- (n) Miscellaneous

Commencing January 1, 1993, the company's accident and health block of business was renewed to Midwest Security Life Insurance Company under a separate assumption reinsurance agreement.

Ownership and control of the company was acquired by State Automobile Mutual Insurance Company (State Auto Mutual) on January 1, 1997. The company became a participant in the State Auto Mutual affiliated reinsurance pooling agreement effective January 1, 1998, and had a 1% reinsurance assumption participation in the pooled risks through December 31, 2004. Effective January 1, 2005, the reinsurance pooling agreement was amended and the company ceased to have any portion of assumption participation in the pool. Further discussion of the company's reinsurance agreements is included in the section of this report captioned "Reinsurance."

State Auto Wisconsin has no employees and most of its business operations are conducted by the affiliate State Auto Property & Casualty Insurance Company (State Auto P&C). State Auto P&C also provides insurance management and operations services to the company. The affiliate Stateco Financial Services, Inc., manages the company's investment operations, subject to the supervision of the State Auto Wisconsin board of directors.

Most of the expenses incurred for business operations within the State Auto holding company system are initially paid by State Auto Mutual on behalf of the respective operating companies in the group. Expenses excluding federal taxes, management service fees, and investment management fees are allocated from State Auto Mutual to participating holding company insurers, including the company. Expenses are allocated in proportion to each respective insurer's participation in pooled premiums and losses in accordance with the affiliated reinsurance pooling agreement. Further discussion of the company's holding company system, its significant affiliated companies, and its affiliated agreements is included in the section of this report captioned "Affiliated Companies."

The company is licensed to write in Illinois, Indiana, Nebraska, and Wisconsin; however, the company currently writes business solely in Wisconsin. The company's direct premium written during 2003 in Wisconsin equaled \$30,098,710. The company's products are marketed through independent agents.

The following table is a summary of the direct, reinsured, and net insurance premiums written by the company in 2003. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	\$ 180,945	\$ 548,001	\$ 186,792	\$ 542,154
Allied lines	108,638	354,621	110,842	352,417
Farmowner's multiple peril		52,728		52,728
Homeowner's multiple peril	6,862,482	1,959,679	6,912,818	1,909,343
Commercial multiple peril		991,461		991,461
Ocean marine	7,267	25,071	7,343	24,995
Inland marine	483,269	241,811	488,499	236,581
Earthquake	1,506	59,215	1,527	59,194
Other accident and health		117		117
Worker's compensation		392,614		392,614
Other liability - occurrence	656,391	614,091	656,391	614,091
Products liability - occurrence		152,319		152,319
Private passenger auto liability	11,500,094	2,589,726	11,500,094	2,589,726
Commercial auto liability		864,527	10	864,517
Auto physical damage	10,298,118	2,575,590	10,356,595	2,517,113
Fidelity		14,173		14,173
Surety		30,127		30,127
Burglary and theft		6,346		6,346
Boiler and machinery		59		59
Reinsurance - non-proportional assumed liability		13		13
Total All Lines	<u>\$30,098,710</u>	<u>\$11,472,289</u>	<u>\$30,220,911</u>	<u>\$11,350,088</u>

III. MANAGEMENT AND CONTROL

Board of Directors

As of the date of this report, the company's board of directors consists of eleven members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive a total of \$37,500 for service on all group boards plus \$1,000 per committee meeting and per board meeting. Committee chairs also receive a \$5,000 supplementary retainer, while the Audit Committee chair receives a supplemental retainer in the amount of \$10,000.

As of the date of this report, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Gerald L. Bepko Indianapolis, Indiana	Chancellor Emeritus, Indiana University/ Purdue University School of Law	2005
Mark A. Blackburn Galena, Ohio	Senior Vice President and Director of Insurance Operations State Auto Mutual	2005
Dennis R. Blank Westerville, Ohio	Executive Vice President Wasserstrom Company	2005
Michael J. Fiorile Columbus, Ohio	President and Chief Executive Officer Dispatch Broadcast Group	2005
Michael F. Dodd Columbus, Ohio	Retired	2005
Urlin G. Harris Delaware, Ohio	Retired	2005
Steven J. Johnston Mount Vernon, Ohio	Senior Vice President and Treasurer State Auto Mutual	2005
John R. Lowther Bexley, Ohio	Senior Vice President, Secretary, and General Counsel State Auto Mutual	2005
Robert H. Moone Westerville, Ohio	Chairman, President, and Chief Executive Officer State Auto Mutual	2005
Paul J. Otte Westerville, Ohio	President Franklin University	2005
Marsha P. Ryan Fort Wayne, Indiana	Senior Vice President American Electric Power	2005

Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are listed below. Listed compensation consists of 2004 gross earnings for services, which in some cases includes taxable compensation income from exercises of stock options rendered to the State Auto holding company system as a whole. The company pays only an allocated percentage of the overall compensation reported.

Name	Office	2004 Compensation
Robert H. Moone	Chairman, President, and Chief Financial Officer	\$1,302,974
Steven J. Johnston	Senior Vice President, Treasurer and Chief Financial Officer	604,177
John R. Lowther	Senior Vice President, Secretary, and General Counsel	543,277
Douglas E. Allen	Vice President, Director of Information Technology	163,247
Terrence L. Bowshier	Vice President, Director of Investor Relations	337,361
James E. Duemey	Vice President, Investment Officer	268,552
Steven R. Hazelbaker	Vice President, Director of Branch Operations	310,541
Noreen W. Johnson	Vice President, Director of Administration & Services	283,588
Robert A. Lett	Vice President of Administration and Services	301,608
John B. Melvin	Vice President, Director of Claims	391,383
Richard L. Miley	Vice President, Director of Agency Development	430,585
John M. Petrucci	Vice President, Director of Corporate Sales	235,986
Mark A. Blackburn	Senior Vice President, Director of Insurance Operations	391,549
David W. Dalton	Vice President, Director of Internal Audit	118,058
William D. Hansen	Vice President, Director of Actuarial Services	277,432
Terrence P. Higerd	Vice President, Director of Information Systems	298,396
Cathy B. Miley	Vice President, Director of Branch Operations	402,325
Paul E. Nordman	Vice President, Director of Underwriting	216,714
Cynthia A. Powell	Vice President, Comptroller	320,947

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the date of the report are listed below:

Investment Committee

Steve J. Johnston, Chair
Robert H. Moone
Urlin G. Harris
Michael J. Fiorile
James E. Duemey

Audit Committee

Dennis R. Blank, Chair
Paul J. Otte
Urlin G. Harris

Nominate & Governance Committee

Marsha P. Ryan, Chair
Michael J. Fiorile
Gerald L. Bepko

Independent Committee

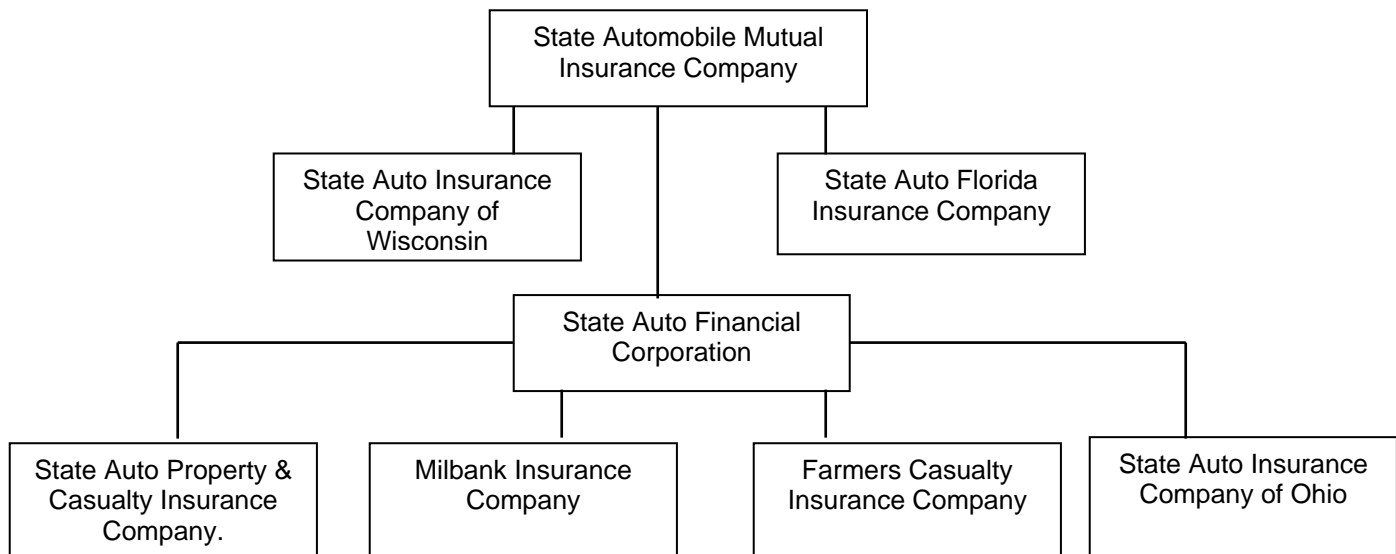
Paul J. Otte, Chair
Dennis R. Blank
Marsh P. Ryan
Gerald L. Bepko
Michael J. Fiorile

IV. AFFILIATED COMPANIES

State Auto of Wisconsin is a member of a holding company system (hereinafter also State Auto Insurance Companies) under the control of State Auto Mutual. The State Auto Insurance Companies group is comprised of 12 insurance companies that provide property/casualty products in 26 states, primarily in the Midwest and eastern United States. State Auto Wisconsin, together with 6 affiliates, participated in an affiliated pooling arrangement (hereinafter also the State Auto Pool) as of December 31, 2003.

The organizational chart below depicts the relationships among the State Auto Pool members. For more information related to the pooling agreement, see the “Reinsurance” section of this report. A brief description of the significant affiliates of the company follows the organizational chart.

**Organizational Chart
As of December 31, 2003**



State Automobile Mutual Insurance Company

State Auto Mutual was incorporated under the laws of the state of Ohio on August 1, 1921, and commenced business on September 1, 1921. State Auto Mutual writes a diverse range of commercial and personal lines of coverage in 25 of the 32 jurisdictions in which it is licensed. State Auto Mutual has an 18.3% participation in the affiliated pooling agreement as of

the examination date. It is responsible for collecting premiums and paying losses, loss expenses and other underwriting expenses of the pooled companies. In 2003, State Auto Mutual accounted for 46% of the direct premiums written by the seven-member pool. As of December 31, 2003, the audited financial statements of State Auto Mutual reported admitted assets of \$1,527,538,040, liabilities of \$531,329,262, policyholders' surplus of \$996,208,778, and net income of \$17,638,129.

State Auto Florida Insurance Company

State Auto Florida Insurance Company (State Auto Florida) was incorporated under the laws of Florida on December 18, 2001, and commenced business in January of 2002. State Auto Florida had a 0.7% participation in the affiliated pooling agreement as of the examination date. State Auto Florida accounted for less than 1% of the direct premiums written by the seven-member pool. As of December 31, 2003, the audited financial statements of State Auto Florida reported admitted assets of \$18,128,988, liabilities of \$10,407,903, policyholders' surplus of \$7,721,085, and net loss of \$449,163.

State Auto Financial Corporation

State Auto Financial Corporation (STFC) is an insurance holding company located in Columbus, Ohio. STFC and its subsidiaries are affiliated with State Auto Mutual, which owns approximately 66% of STFC's common shares outstanding. Its registered shares are listed on the NASDAQ under the ticker symbol "STFC."

Wholly Owned Subsidiaries of State Auto Financial Corporation

State Auto Property & Casualty Insurance Company

State Auto Property & Casualty Insurance Company (State Auto P&C) was incorporated under the laws of South Carolina on January 25, 1950, and commenced business on April 1, 1950. State Auto P&C has a 59.0% participation in the affiliated pooling agreement as of the examination date. In 2003, State Auto P&C accounted for 46% of the direct premiums written by the seven-member pool. As of December 31, 2003, the audited financial statements of State Auto P&C reported admitted assets of \$1,221,446,154, liabilities of \$870,908,374, policyholders' surplus of \$350,537,780, and a net income of \$41,344,256.

Milbank Insurance Company

Milbank Insurance Company (Milbank) was incorporated under the laws of South Dakota on October 21, 1982, and commenced business on January 18, 1892. Milbank had a 17.0% participation in the affiliated pooling agreement as of the examination date. In 2003, Milbank accounted for 6% of the direct premiums written by the seven-member pool. As of December 31, 2003, the audited financial statements of Milbank reported admitted assets of \$343,342,206, liabilities of \$245,496,593, policyholders' surplus of \$97,845,613, and a net income of \$9,467,023.

Farmers Casualty Insurance Company

Farmers Casualty Insurance Company (Farmers) was incorporated under the laws of Iowa on May 9, 1928, and commenced business on July 27, 1928. Farmers had a 3.0% participation in the affiliated pooling agreement as of the examination date. In 2003, Farmers accounted for 2% of the direct premiums written by the seven-member pool. As of December 31, 2003, the audited financial statements of Farmer's reported admitted assets of \$62,132,231, liabilities of \$43,550,104, policyholders' surplus of \$18,582,127, and a net income of \$1,331,987.

State Auto Insurance Company of Ohio

State Auto Insurance Company of Ohio (State Auto Ohio) was incorporated under the laws of Ohio on May 17, 1999, and commenced business on January 1, 2000. State Auto Ohio had a 1% participation in the affiliated pooling agreement as of the examination date. In 2003, State Auto Ohio accounted for less than 1% of the direct premiums written by the seven-member pool. As of December 31, 2003, the audited financial statements of State Auto Ohio reported admitted assets of \$21,314,196, liabilities of \$14,487,963, policyholders' surplus of \$6,826,233, and a net income of \$582,985.

Agreements with Affiliates

Management Agreement

State Auto P&C provides insurance management and operations services to State Auto Wisconsin. State Auto Mutual provides State Auto Wisconsin with data processing equipment and services, including the use of its equipment, supplies, communication, and other facilities. The company pays a fee equal to 0.75% of its direct premium written.

Investment Management Agreement

Stateco Financial Services, Inc., a wholly owned subsidiary of State Auto Financial Corporation, provides investment management services to the company for a fee based on the average fair value of the investment portfolio.

Federal Income Tax Allocation Agreement

The company is party to a consolidated federal income tax agreement with certain affiliates. Under this contract, allocation is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return.

V. REINSURANCE

The company's reinsurance treaties in force at the time of the examination are summarized below. The contracts contained the proper insolvency provisions. Unless otherwise noted, the summaries reflect terms in force at the time of the examination.

Affiliated Pooling Agreement

The companies in the State Auto Pool (State Auto Mutual, State Auto Florida, State Auto P&C, Milbank, State Auto Wisconsin, Farmers, and State Auto Ohio) pool substantially all of their net written business, net of any business ceded to and assumed from nonaffiliates, under an Intercompany Pooling Agreement. All companies in the State Auto Pool cede 100% of their net premiums, losses, loss adjustment expenses, and underwriting and administrative expenses to State Auto Mutual Insurance Company.

State Auto Mutual is responsible for collecting premiums and paying losses, loss expenses and other underwriting expenses of the pooled companies. Unpaid balances for these items are recorded through intercompany balances and are settled quarterly. State Auto Mutual carries any balances for premiums receivable or reinsurance recoverable on paid losses. State Auto Mutual administers all aspects of the pooled business, including the placement of additional reinsurance. The net pooled business is then distributed according to the participations listed below. Income and expenses related to investment operations and federal income taxes are not included in the pooling.

The reinsurance participants and their respective participation percentages are as follows:

Name of Company	Dec. 31, 2003	Jan. 1, 2005
State Auto Property and Casualty Insurance Company	59.0%	59.0%
State Auto Mutual Insurance Company	18.3	19.5
Milbank Insurance Company	17.0	17.0
Farmers Casualty Insurance Company	3.0	3.0
State Auto Insurance Company of Ohio	1.0	1.0
State Auto Insurance Company of Wisconsin	1.0	0.0
State Auto Florida Insurance Company	0.7	0.0
Meridian Citizens Mutual Insurance Company	n/a	0.5
Meridian Security Insurance Company	<u>n/a</u>	<u>0.0</u>
Total State Auto Pool	<u>100.0%</u>	<u>100.0%</u>

The insurers in the State Auto Pool are not party to the same reinsurance agreements as every other member of the State Auto Pool. Cessions with nonaffiliates are made first and the net results are then pooled.

A reinsurance intermediary is used for the reinsurance contracts numbered one, three, four, and seven below. Additional terms of significant reinsurance contracts are outlined as follows:

Reinsurance Ceded

1. Type of contract: Casualty First and Second Excess of Loss
Reinsurer: See Table A below
Effective date: July 1, 2003
Term: Continuous
Business covered: Third-party liability including personal injury uninsured motorist and underinsured motorist, worker's compensation and employers' liability and shall include the company's net retention on umbrella policies
Company retention: \$2,000,000 each loss occurrence
Reinsurance limits: 100% of \$3,000,000 excess of \$2,000,000
100% of \$10,000,000 excess of \$5,000,000
2. Type of contract: Quota Share
Reinsurer: The Hartford Steam Boiler Inspection and Insurance Company
Effective date: January 1, 1998
Term: Continuous
Business covered: Equipment breakdown liability
Company retention: None
Reinsurance limits: 100% of losses with a maximum \$50,000,000 any one accident
3. Type of contract: Property Per Risk First and Second Excess of Loss
Reinsurer: See Table B below
Effective date: July 1, 2003
Term: Continuous
Business covered: All policies entered into by the company and classified as property

- Company retention: \$2,000,000 each loss occurrence
- Reinsurance limits: 100% of \$3,000,000 excess of \$2,000,000
100% of \$5,000,000 excess of \$5,000,000
4. Type of contract: Property Catastrophe Excess of Loss
- Reinsurer: See Table C below
- Effective date: July 1, 2003, to July 1, 2004
- Term: One Year
- Business covered: All policies entered into by the company and classified as fire, allied lines, homeowner's, farmowner's, commercial multiple peril, ocean marine, inland marine and automobile physical damage
- Company retention: \$40,000,000 each loss occurrence
- Reinsurance limits: 95% of \$15,000,000 excess of \$40,000,000
95% of \$25,000,000 excess of \$55,000,000
95% of \$40,000,000 excess of \$80,000,000
5. Type of contract: Property Catastrophe Excess of Loss Overlay Agreement
- Reinsurer: State Auto Property and Casualty
- Effective date: July 1, 2003, to July 1, 2004
- Term: One year
- Business covered: All policies entered into by the company and classified as fire, allied lines, homeowner's, farmowner's, commercial multiple peril, ocean marine, inland marine and automobile physical damage
- Company retention: \$120,000,000 each loss occurrence
- Reinsurance limits: \$100,000,000 excess of \$120,000,000
6. Type of contract: Quota Share and Excess of Loss
- Reinsurer: General Reinsurance Corp and Employers Reinsurance Corp
- Effective date: October 1, 2003
- Term: Continuous
- Business covered: All policies entered into by the company and classified as personal umbrella and commercial umbrella business damage
- Company retention: 60% of \$1,000,000 each loss occurrence
- Reinsurance limits: 40% of \$1,000,000 each loss occurrence
100% of \$4,000,000 excess of \$1,000,000 personal umbrella
100% of \$9,000,000 excess of \$1,000,000 commercial umbrella

7. Type of contract:	Worker's Compensation Excess of Loss
Reinsurer:	See Table D below
Effective date:	July 1, 2003
Term:	Continuous
Business covered:	Worker's compensation and employer liability business
Company retention:	\$2,000,000 each loss occurrence
Reinsurance limits:	100% of \$3,000,000 excess of \$2,000,000 100% of \$5,000,000 excess of \$5,000,000

Reinsurance Assumed

The company assumes a small piece of business from Mandatory Pools. The contract contained an insolvency clause, service of suit clause, errors and omission clause, arbitration clause all that meet the guidelines prescribed by the NAIC.

Table A
Casualty First and Second Excess of Loss
Participation Schedule

Reinsurers	First Excess	Second Excess
Continental Casualty Company	20.0%	0.0%
Employers Mutual Casualty Company	5.0	5.0
Endurance Specialty Insurance Ltd.	20.0	30.0
Everest Reinsurance Company	22.5	22.5
Liberty Mutual Insurance Company	5.0	5.0
The TOA Reinsurance Company of America	7.5	7.5
Hannover Ruckversicherungs AG	<u>20.0</u>	<u>30.0</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Table B
Property Per Risk First and Second Excess of Loss
Participation Schedule

Reinsurers	First Excess	Second Excess
Catlin Insurance Company Ltd.	5.0%	7.5%
Employers Mutual Casualty Company	3.0	3.0
Endurance Specialty Insurance Limited	10.0	5.0
Erie Insurance Exchange	10.0	0.0
Liberty Mutual Insurance Company	7.5	5.0
Mapfre Reinsurance Company	6.0	6.0
QBE Reinsurance Corporation	10.0	10.0
Underwriters at Lloyd's	<u>48.5</u>	<u>63.5</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Table C
Property Catastrophe Excess of Loss
Participation Schedule

Reinsurers	First Excess	Second Excess	Third Excess
ACE Tempest Reinsurance Ltd.	0.00%	8.00%	8.00%
American Agricultural Insurance Company	3.25	3.50	3.25
Catlin Insurance Company Ltd.	3.00	3.00	1.00
Continental Casualty Company	3.50	3.00	2.00
Employers Mutual Casualty Company	1.25	1.25	1.00
Endurance Specialty Insurance Limited	7.50	6.00	6.00
Erie Insurance Exchange	4.00	4.00	4.00
Farmers Mutual Hail Insurance Company	0.00	1.00	0.625
Folksamerica Reinsurance Company	5.00	2.00	2.00
GE Reinsurance Corporation	6.25	6.25	0.00
Hannover Re (Bermuda) Ltd.	0.00	0.00	5.00
IPC Re. Limited	5.00	5.00	5.00
Liberty Mutual Insurance Company	2.50	2.50	2.50
Mapfre Reinsurance Corporation	3.00	3.00	1.50
Odyssey America Reinsurance Corporation	6.50	5.00	3.50
Platinum Underwriters Reinsurance Inc.	3.00	3.00	3.00
QBE Reinsurance Corporation	0.00	0.00	5.00
Shelter Mutual Insurance Company	1.25	1.25	1.25
Transatlantic Reinsurance Company	12.00	15.00	15.00
GE Frankona Reinsurance Ltd.	2.46	1.85	1.98
Underwriter's at Lloyd's	<u>25.54</u>	<u>20.40</u>	<u>23.39</u>
Total	<u>95.00%</u>	<u>95.00%</u>	<u>95.00%</u>

Table D
Worker's Compensation Excess of Loss
Participation Schedule

Reinsurers	First Excess	Second Excess
Continental Casualty Company	40.0%	45.0%
Employers Mutual Casualty Company	0.0	5.0
Max Re Ltd.	40.0	20.0
Hannover Ruckversicherungs AG	<u>20.0</u>	<u>30.0</u>
Total	<u>100.0%</u>	<u>100.0%</u>

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section under the caption "Reconciliation of Surplus per Examination."

State Auto Insurance Company of Wisconsin
Assets
As of December 31, 2003

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$18,356,527	\$	\$18,356,527
Stocks:			
Common stocks	1,132,295		1,132,295
Cash	10,150		10,150
Short-term investments	378,268		378,268
Investment income due and accrued	281,090		281,090
Premiums and considerations:			
Deferred premiums, agents'			
balances, and installments booked			
but deferred and not yet due	31,670		31,670
Reinsurance:			
Amounts recoverable from reinsurers	3,734,309		3,734,309
Net deferred tax asset	1,057,163	538,237	518,926
Receivable from parent, subsidiaries, and affiliates	2,859,626		2,859,626
Write-ins for other than invested assets:			
Equities and deposits in pools and associations	<u>(486)</u>	<u> </u>	<u>(486)</u>
Total Assets	<u>\$27,840,612</u>	<u>\$538,237</u>	<u>\$27,302,375</u>

State Auto Insurance Company of Wisconsin
Liabilities, Surplus, and Other Funds
As of December 31, 2003

Losses		\$ 6,076,064
Reinsurance payable on paid loss and loss adjustment expenses		1,592,378
Loss adjustment expenses		1,359,846
Current federal and foreign income taxes		151,062
Unearned premiums		4,645,538
Ceded reinsurance premiums payable (net of ceding commissions)		4,925,293
Payable to parent, subsidiaries, and affiliates		<u>96,949</u>
Total Liabilities		18,847,130
Common capital stock	\$2,080,000	
Gross paid in and contributed surplus	225,000	
Unassigned funds (surplus)	<u>6,150,245</u>	
Surplus as Regards Policyholders		<u>8,455,245</u>
Total Liabilities and Surplus		<u>\$27,302,375</u>

**State Auto Insurance Company of Wisconsin
Summary of Operations
For the Year 2003**

Underwriting Income

Premiums earned		\$11,006,095
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Deductions:

Losses incurred	\$6,242,946	
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Loss expenses incurred	1,273,296	
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Other underwriting expenses incurred	3,727,722	
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Write-ins for underwriting deductions:

NC private passenger auto escrow	8,489	
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Total underwriting deductions		<u>11,252,453</u>
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Net underwriting loss		(246,358)
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Investment Income

Net investment income earned	806,956	
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Net realized capital losses	<u>(107,345)</u>	
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Net investment gain		699,611
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Other Income

Net loss from agents' or premium balances charged off	(37,667)	
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Finance and service charges not included in premiums	39,395	
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Write-ins for miscellaneous income:

Miscellaneous expense	<u>(499)</u>	
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Total other income		<u>1,229</u>
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Net income before dividends to policyholders and before federal and foreign income taxes		454,482
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Dividends to policyholders		<u>5,824</u>
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Net income after dividends to policyholders but before federal and foreign income taxes		448,658
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Federal and foreign income taxes incurred		<u>53,740</u>
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Net Income		<u>\$ 394,918</u>
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State Auto Insurance Company of Wisconsin
Cash Flow
For the Year 2003

Premiums collected net of reinsurance		\$16,275,379
Net investment income		862,699
Miscellaneous income		<u>1,229</u>
Total		17,139,307
Benefit and loss related payments	\$ 8,222,852	
Commissions, expenses paid, and aggregate write-ins for deductions	4,803,496	
Dividends paid to policyholders	5,824	
Federal and foreign income taxes recovered	<u>(71,668)</u>	
Total deductions		<u>12,960,504</u>
Net cash from operations		4,178,803
Proceeds from investments sold, matured, or repaid:		
Bonds	\$ 456,280	
Stocks	<u>94,309</u>	
Total investment proceeds		550,589
Cost of investments acquired (long-term only):		
Bonds	2,496,507	
Stocks	<u>146,466</u>	
Total investments acquired	<u>2,642,973</u>	
Net cash from investments		(2,092,384)
Cash from financing and miscellaneous sources:		
Other cash applied	<u>(2,583,258)</u>	
Net cash from financing and miscellaneous sources		<u>(2,583,258)</u>
Reconciliation		
Net change in cash and short-term investments		(496,839)
Cash and short-term investments, December 31, 2002		<u>885,259</u>
Cash and short-term investments, December 31, 2003		<u>\$ 388,420</u>

**State Auto Insurance Company of Wisconsin
Compulsory and Security Surplus Calculation
December 31, 2003**

Assets			\$27,302,375
Less liabilities			<u>18,847,130</u>
Adjusted surplus			8,455,245
Annual premium:			
Individual accident and health	\$	117	
Factor		<u>15%</u>	
Total			\$ 18
Lines other than accident and health		11,344,147	
Factor		<u>20%</u>	
Total			<u>2,268,829</u>
Compulsory surplus (subject to a minimum of \$2 million)			<u>2,268,847</u>
Compulsory surplus excess (or deficit)			<u>\$ 6,186,398</u>
Adjusted surplus (from above)			\$ 8,455,245
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)			<u>3,176,386</u>
Security surplus excess (or deficit)			<u>\$5,278,859</u>

**State Auto Insurance Company of Wisconsin
Reconciliation and Analysis of Surplus
For the Three-Year Period Ending December 31, 2003**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2003	2002	2001
Surplus, beginning of year	\$7,465,054	\$7,576,324	\$7,643,974
Net income	394,918	(168,330)	(631,754)
Net unrealized capital gains or (losses)	240,838	(8,574)	(38,482)
Change in net deferred income tax	47,428	110,926	426,702
Change in non-admitted assets	(7,032)	(45,292)	(243,929)
Cumulative effect of changes in accounting principles	<u>314,039</u>	<u> </u>	<u>419,813</u>
Surplus, end of year	<u>\$8,455,245</u>	<u>\$7,465,054</u>	<u>\$7,576,324</u>

**State Auto Insurance Company of Wisconsin
Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 2003**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and are discussed following the table of IRIS results.

	Ratio	2003	2002	2001
#1	Gross Premium to Surplus	492%	484%	368%
#2	Net Premium to Surplus	134	144	126
#3	Change in Net Writings	6	12	39
#4	Surplus Aid to Surplus	0	0	0
#5	Two-Year Overall Operating Ratio	96	101*	98
#6	Investment Yield	4.3*	4.4*	4.2*
#7	Change in Surplus	13	0	3
#8	Liabilities to Liquid Assets	93	64	60
#9	Agents' Balances to Surplus	0	0	0
#10	One-Year Reserve Development to Surplus	0	1	9
#11	Two-Year Reserve Development to Surplus	5	10	7
#12	Estimated Current Reserve Deficiency to Surplus	13	9	-6

Ratio No. 5 measures the company's overall operating results during the past two years. In 2001, the State Auto Pool acquired a book of business that was operating at loss ratios significantly higher than the State Auto Pool. For 2002, the two-year operating ratio reflected loss results from the first two years of integrating this book of business into the State Auto Mutual underwriting and claim settlement guidelines and practices.

Ratio No. 6 measures the average return on the company's investments. The exceptional investment yield may be attributed to the company's large tax exempt holdings, which provide traditionally lower investment returns offset by tax benefits.

Growth of State Auto Insurance Company of Wisconsin

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2003	\$27,302,375	\$18,847,130	\$8,455,245	\$ 394,918
2002	19,272,822	11,807,769	7,465,053	(168,330)
2001	18,178,575	10,602,251	7,576,324	(631,754)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2003	\$41,570,999	\$11,350,088	\$11,006,095	68.3%	32.9%	101.2%
2002	36,104,899	10,724,804	10,289,186	74.7	31.7	106.4
2001	27,917,320	9,558,884	8,370,391	78.8	31.5	110.4

Overall, the company has not experienced changes during the examination period that would have significantly impacted its financial position. Gross premiums written have increased almost 50% since the previous examination, while the company's loss ratio and combined ratio have been steadily declining. Surplus as regards to policyholders increased about 12% during the examination period.

As previously noted, the company is a member of the State Auto Pool. All companies in the State Auto Pool cede 100% of their net premiums, losses, loss adjustment expenses, and underwriting and administrative expenses to State Auto Mutual. As of the exam date, State Auto Wisconsin was a 1% participant in the pool. Effective January 1, 2005, the reinsurance pooling agreement was amended and the company ceased to have any portion of assumption participation in the pool. State Auto Wisconsin is licensed to write in Illinois, Indiana, Nebraska, and Wisconsin; however, the company currently writes business solely in Wisconsin.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2003, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. The comment and recommendation contained in the last examination report and action taken by the company are as follows:

1. Corporate Records—It is recommended that the company properly file all future affiliated agreements, or any amendment thereof, at least 30 days in advance of the effective date, in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.

Action—Compliance

Summary of Current Examination Results

The current examination did not result in any findings of material exception, and did not result in any recommendations requiring company action or compliance.

VIII. CONCLUSION

The company has not experienced changes during the examination period that would have significantly impacted its financial position. Gross premiums written have increased almost 50% since the previous examination, while the company's loss ratio and combined ratio have been steadily declining. Surplus as regards to policyholders increased about 12% during the examination period.

The examination resulted in no new recommendations. The company was found in compliance with the recommendation included in the previous report. In addition, there were no adjustments to policyholders' surplus or reclassifications in balance sheet line items as a result of the examination.

As previously noted, the company is a member of the State Auto Pool. All companies in the State Auto Pool cede 100% of their net premiums, losses, loss adjustment expenses, and underwriting and administrative expenses to State Auto Mutual. As of the exam date, State Auto Wisconsin was a 1% participant in the pool. Effective January 1, 2005, the reinsurance pooling agreement was amended and the company ceased to have any portion of assumption participation in the pool.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination did not result in any findings of material exception and did not result in any recommendations requiring company action or compliance.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

Respectfully submitted,

Rick Anderson
Examiner-in-Charge